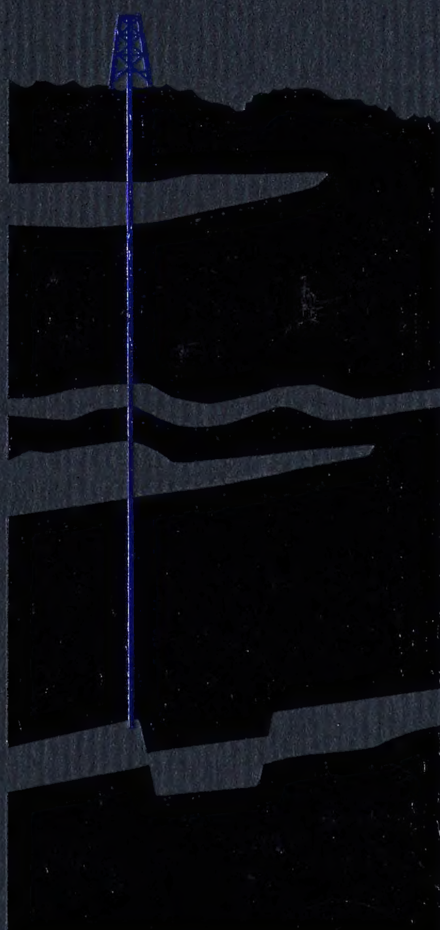
BONAVISTA PETROLEUM LTD.



2002 ANNUAL REPORT

The annual meeting of the shareholders of Bonavista Petroleum Ltd. will be held at 3:00 p.m. on Wednesday, May 28, 2003, in the Grand Lecture Theatre of the Metropolitan Centre, Main Level, 333 – 4th Avenue SW, Calgary, Alberta. Shareholders who are unable to attend this meeting are requested to complete and return their proxies to the CIBC Mellon Trust Company at their earliest convenience.

Table of Contents

1 Corporate Profile **2** Corporate Highlights **7** Message to Shareholders **12** The Bonavista Team
13 Operations Review **21** Management's Discussion and Analysis **26** Management's Report
26 Auditors' Report to the Shareholders **27** Consolidated Financial Statements **36** Five-Year Summary
IBC Corporate Information

ABBREVIATIONS

ARTC	Alberta Royalty Tax Credit
bbls	Barrels
bbls/day	Barrels per day
bcf	Billion cubic feet
boe	Barrel(s) of oil equivalent
boe/day	Barrel(s) of oil equivalent per day
gj	Gigajoule
mbbls	Thousand of barrels
mcf	Thousand cubic feet
mcf/day	Thousand cubic feet per day
mmcf	Million cubic feet
mmcf/day	Million cubic feet per day
WTI	West Texas Intermediate

Units of natural gas are converted into a barrel of oil equivalent at a ratio of six thousand cubic feet of natural gas to one barrel of oil.

Our strategy is clearly defined and has delivered consistent growth over five years. Continuing to execute this tested strategy is the key to repeating our performance.

Bonavista Petroleum Ltd. is a Calgary, Alberta-based intermediate oil and natural gas company actively expanding its production and reserve base in western Canada. Our corporate objective is to achieve and sustain per share growth in production, reserves, cash flow, net income and asset value for shareholders.

In 2002, we celebrated our fifth year as a management team and, as a group, we have diligently planned and controlled our growth to ensure the optimum return for shareholders. Having firm control over a company's performance markers is paramount. At Bonavista we believe our performance achievements are a result of strictly adhering to our business principles and focusing on our strategy, people and fundamentals.

We will endeavour to continue to build a dynamic and profitable organization. Bonavista is listed on the Toronto Stock Exchange under the symbol BNP.

2002 Corporate Highlights

December 31,	2002	2001	% Change
($ thousands, except per share)			
Financial			
Production revenue	**340,172**	307,858	10
Cash flow from operations	**205,356**	188,046	9
Per share – basic	**6.56**	6.51	1
Per share – diluted	**6.47**	6.26	3
Net income	**70,302**	75,097	(6)
Per share – basic	**2.25**	2.60	(13)
Per share – diluted	**2.21**	2.50	(12)
Return on equity	**24%**	44%	(20)
Total assets	**733,426**	540,602	36
Long-term debt, net of working capital	**133,898**	148,363	(10)
Shareholders' equity	**402,521**	247,945	62
Net capital expenditures	**267,928**	267,517	–
Common shares outstanding at year-end (thousands)			
Basic	**32,429**	29,303	11
Diluted	**34,818**	31,390	11
Operating (boe conversion – 6:1 basis)			
Production			
Natural gas (mmcf/day)	**132**	127	4
Light and medium oil (bbls/day)	**7,255**	3,921	85
Heavy oil (bbls/day)	**7,521**	4,598	64
Total oil (bbls/day)	**14,776**	8,519	73
Total oil equivalent (boe/day)	**36,693**	29,676	24
Product prices			
Natural gas ($/mcf)	**3.85**	5.11	(25)
Light and medium oil ($/bbl)	**33.40**	29.82	12
Heavy oil ($/bbl)	**24.46**	17.01	44
Total oil ($/bbl)	**28.85**	22.91	26
Total oil equivalent ($/boe)	**25.40**	28.42	(11)
Cash flow netback ($/boe)	**15.33**	17.36	(12)
Operating expense ($/boe)	**4.04**	3.24	25
General and administrative ($/boe)	**0.20**	0.18	11
Undeveloped land			
Gross acres	**1,269,710**	986,224	29
Net acres	**1,108,414**	867,526	28
Average working interest	**87%**	88%	(1)
Proven and probable reserves			
Natural gas (bcf)	**297.4**	280.4	6
Oil and liquids (mbbls)	**51,578**	39,080	32
Total oil equivalent (mboe)	**101,147**	85,820	18
Finding and on-stream costs ($/boe)			
Proven	**11.32**	8.54	33
Proven and probable	**9.33**	6.74	38
Recycle ratio			
Proven	**1.4**	2.0	(30)
Proven and probable	**1.6**	2.6	(38)

Achieving Our Targets

Bonavista annually sets targets for performance, a process that allows us to focus on achieving new levels of growth. We have selected the following specific measurements that we believe are the critical benchmarks of our growth.

Production (boe/day)

2002 Target	36,000
Actual	36,693

During 2002, the company exceeded its production target. Production increases were driven by significant growth in our Southern and Northeastern Core Regions.

Undeveloped Land (net acres)

2002 Target	950,000
Actual	1,108,414

Our acquisition late in 2002 increased undeveloped land well over the target level.

Operating Expenses ($/boe)

2002 Target	$3.75
Actual	$4.04

Overall pressure on costs pushed operating expenses up industry wide. This combined with a shift in our production from natural gas to light and heavy oil increased expenses in 2002. Comparably, these results remain top quartile.

General and Administrative Expenses ($/boe)

2002 Target	$0.25
Actual	$0.20

We anticipated increased G&A as a result of our expanding size of operations; we were able to contain those increases in 2002. Again, these are top quartile numbers.

Debt to Running Cash Flow

2002 Target	<2.0:1
Actual	0.5:1

Our expectation of commodity prices was exceeded in 2002, which, together with production increases, augmented cash flow. At the same time, we used proceeds from our equity issue to pay down debt. This allowed us to greatly improve on our 2002 target.

Cash Flow ($ millions)

2002 Target	$150
Actual	$205

We exceeded our target cash flow through the impact of greater production volumes and higher actual commodity prices.

Cash Flow per Share (basic)

2002 Target	$5.15
Actual	$6.56

We beat our target cash flow per share number for the same reason as the cash flow target was exceeded.

Net Income ($ millions)

2002 Target	$45
Actual	$70

Despite the anticipated lower commodity prices, we exceeded our target 2002 net income as a result of the increased production volumes and the higher commodity prices achieved during the year.

Net Income per Share (basic)

2002 Target	$1.55
Actual	$2.25

We beat our target net income per share number for the same reason as the net income target was exceeded.

Recycle Ratio

2002 Target	>2.0:1
Actual	1.6:1

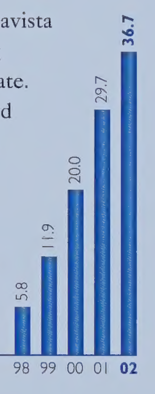
The lower recycle ratio in 2002 is the result of a combination of factors. Cash netbacks were lower as a result of the increased amount of heavier crude in our production mix, which generates less cash flow per boe compared with natural gas and lighter crude. F&D costs were higher largely as a result of overall industry cost increases.

Measuring our Five-Year Performance

The year 2002 was a significant milestone for us, marking the fifth anniversary of our operation of the Company. It provides a perspective from which we can look back at what we have accomplished. The results achieved over the past five years have positioned Bonavista in the top decile of companies in the energy industry and attest to the underlying strength of our strategies. By employing these strategies, Bonavista is well positioned for continued growth.

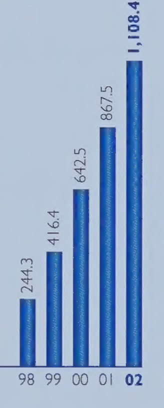
Production
(mboe/day)

Over the past five years Bonavista has grown from an emerging junior into a solid intermediate. Our programs have generated a 72 percent average growth rate in production from a diversified portfolio of gas, light oil and heavier oil.



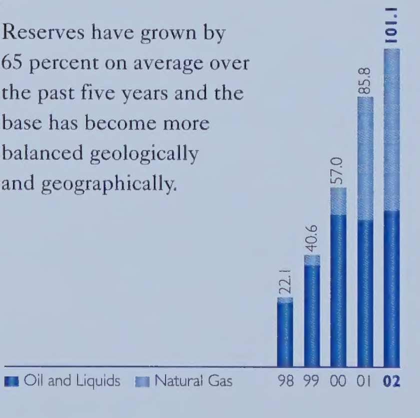
Net Undeveloped Land
(thousands of acres)

Land is the raw material for production and we have steadily grown our base by an average 93 percent over the five-year period and we currently maintain a drilling inventory of two to three years.



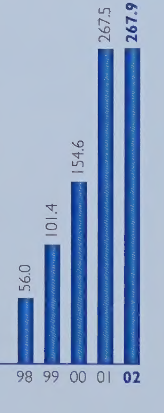
Reserves, Proven and Probable
(mmboe)

Reserves have grown by 65 percent on average over the past five years and the base has become more balanced geologically and geographically.



Net Capital Expenditures
($ millions)

Increasing levels of capital investment over the five years has resulted in the efficient addition of reserves. Bonavista's average five-year finding and on-stream cost was $6.54/boe.



Cash Flow from Operations
($ millions)

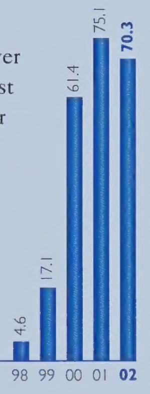
We have achieved consecutive annual increases in cash flow which have generated a compounded growth rate in cash flow of 105 percent over the past five years, in spite of a highly volatile commodity price environment.

Cash Flow per Share
($/share)

On a per share basis, cash flow has grown at a compound rate of 65 percent over the five-year period reflecting the consistent increases in cash flow, combined with our strategic use of equity to finance acquisitions and expansions.

Net Income
($ millions)

The 271 percent compound growth rate in net income over the period underlines the cost effectiveness we apply to our operations, allowing us to optimize the financial impact of our activity.

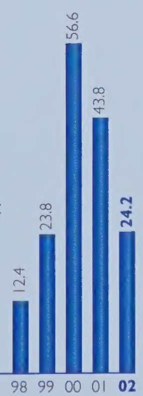


Net Income per Share
($/share)

The 196 percent compound growth rate in net income per share over the five years is a direct reflection of the commitment to shareholder value that is shared by our entire staff.

After Tax Return on Equity
(percent)

We have generated an average after tax return on equity of 32 percent, which is well above the average for our industry and is the key measurement of value being delivered to our shareholders.



Share Price
($/share)

The value of our equity over the past five years has increased four-fold. Our stock has consistently traded at a high multiple of earnings, reflecting the aggressive performance we have promised and delivered.

Focus on Strategy

The essence of our strategy is to control our operations and costs while remaining flexible and open to opportunities as they arise. To execute this strategy requires an outstanding team of people, and we have that team.

Message to Shareholders

In many ways, 2002 underlined the volatility that characterizes our industry and challenges Bonavista as we strive to deliver consistent growth. And yet, looking back on 2002, we are reassured that Bonavista's strategy continues to deliver solid results and profitable growth. We entered the year with the WTI reference oil price at around US$20 per bbl and the natural gas price at Cdn$3.40 per mcf. Global events, together with strong North American energy demand, combined to push the WTI oil price to US$31.20 per bbl and the natural gas price to Cdn$6.01 per mcf by the end of 2002. The ongoing confrontation in the Middle East and labour issues in other parts of the world, in tandem with reduced crude oil inventories and lower natural gas storage levels, have perpetuated this volatility as we head into 2003. In the face of this uncertain environment, we continue to rely on commodity diversity in our portfolio of opportunities, in combination with our low cost structure and our strong balance sheet to manage our drilling and acquisition programs and deliver profitable results.

Our size and financial capacity provide us with a strategic advantage to pursue the wide variety of opportunities the basin has to offer, while maintaining a high level of efficiency and responsiveness.

Energy capital markets were also significantly impacted by the transfer of oil and natural gas assets both in 2001 and 2002. These transactions have left an energy industry populated by a small group of senior Canadian and US independent oil and natural gas companies; a lengthening list of energy trusts that focus on returning cash flow to unitholders; an increasing group of junior producers; and a small collection of Canadian intermediate producers, of which Bonavista is one. The net result has been a significant reduction in the number of companies actively involved in true exploration for oil and natural gas and lower overall drilling activity levels throughout the year. For Bonavista, this environment presented challenges and opportunities and we responded to both. We emerged from 2002 as one of only a few intermediate-sized producers in our industry. Our size and financial capacity provide us with a strategic advantage to pursue the wide variety of opportunities the basin has to offer, while maintaining a high level of efficiency and responsiveness.

The growing concern among shareholders in 2002 for enhanced credibility of management and integrity in financial results created a heightened awareness of corporate governance and the need for independent review of all critical areas of corporate performance. For Bonavista, this approach is consistent with the strict analysis and evaluation we apply to all areas of the Company. Our strategy has always emphasized the need for our people to have a hands-on approach to operations, monitor the quality and integrity of these operations and to manage the pace of growth, so that no detail is overlooked and costs are controlled. Optimizing and effectively managing our assets is at the heart of what we do, and we expose all of our operations to an ongoing and critical review to ensure the integrity of our data and fundamental strength of our results.

In the face of commodity price volatility, substantial changes in ownership of the energy sector, and an increasing surveillance of operating practices, Bonavista's financial and operating performance continues to be strong. We measure our own performance on a few basic criteria – did we provide an acceptable return on equity, on capital employed and cash flow recycle ratio; did we increase our production and reserves per share; and did we increase net asset value per share? Our review of these criteria indicate that we accomplished each of our goals again in 2002. This gives us confidence that our strategy is working and we are continuing to create value for our shareholders.

The six key strategic principles that continue to guide our decisions and deliver our results are:

Building a dedicated and determined team aligned with corporate goals. Bringing entrepreneurial people together to achieve a common goal of value creation is a spirit we have worked hard to create and preserve at Bonavista. Our flat corporate organizational structure and geographic teamwork allows us to communicate effectively, and move quickly and concisely. We reward our people with high levels of company ownership keeping them accountable and focused on the same value creation that you, our shareholders are expecting. This team brings together the skills and commitment to operate efficiently, the understanding of how to dominate and exploit properties so effectively, and the intense focus that allows us to generate maximum returns. All of Bonavista's highly skilled employees are motivated by a collective enthusiasm for enhancing value. Our strength truly is our people. Our shared focus is value creation.

Achieving operational control and dominance. Many benefits flow to a company that clearly understands and dominates their core areas. We use our geological and operational understanding of each of our Core Regions to minimize finding and development costs and reduce operating costs. We determine the timing and cost of exploration and development activities as well as the speed and efficiency of tying-in production. We optimize the value of our assets by controlling when and how we convert undeveloped land into reserves and production. Bonavista achieves control and dominance in its four Core Regions through focused land acquisitions and seismic programs, supported by operated production facilities and a selective property acquisition strategy. Our four Core Regions were intentionally targeted because they offer the attributes that enable Bonavista to achieve operational control and dominance.

By being the dominant operator, we are in the strongest position in our Core Regions to be one of the most efficient producers.

Enforcing strict cost controls. In any industry, the low-cost producer always has a distinct advantage. In the energy industry, which is characterized by product price volatility and drilling risk, keeping the cost of reserve additions and production as low as possible is the best way to optimize margins and maximize profitability. To achieve this means paying attention to every expense, every detail and every opportunity to reduce costs. By achieving operational control and dominance, Bonavista is able to generate and exploit opportunities to maximize netbacks and create additional value. As our basin matures and the size of reservoirs becomes smaller, this control of costs and attention to detail becomes even more critical. At Bonavista we are focused on the details and remain one of the lowest cost producers in the industry.

Maintaining diversity in geography, geology and commodities. Volatility and uncertainty are factors that have always characterized our industry. Diversification of commodity mix is one of the ways to counteract volatility. Diversification of geological play-types provides a higher degree of certainty and predictability. Diversification of geography allows for an appropriate pace of growth throughout the year. Each of our four Core Regions offer multi-zone geological potential for both oil and natural gas with year round access to most of the areas.

Executing acquisitions to consolidate assets in our Core Regions. We have found that, by being the dominant operator, we are in the strongest position in our Core Regions to be one of the most efficient producers. We control the land and production infrastructure in each of our Core Regions and have become the primary acquirer of other companies' interests in each area of activity. These acquisitions further consolidate our interests and enhance our ability to increase production, reduce costs and capture additional value.

Maintaining financial flexibility. Financial flexibility is an essential element in our business plan. By investing our shareholders' capital carefully and wisely, and quickly converting this investment to cash flow, we can maintain a strong balance sheet with long-term debt held at manageable levels. In 2002, we issued $80 million of new equity and executed an expanded exploration and development program along with a series of attractive acquisitions, leaving us with debt to trailing cash flow of 0.65:1 entering 2003. A strong balance sheet places us in an excellent position to take advantage of future opportunities.

At Bonavista, we are dedicated to maintaining and executing these strategies and as a result we believe that we will continue to provide shareholders with above average financial and operational returns. Our strategies are interlinked and not that different from other energy producers. The difference at Bonavista lies in the people and the way they execute these strategies. We have been able to create a strong and successful culture at Bonavista. We are confident that we can maintain a dynamic and motivating environment for our employees, reflected in our proven performance of creating shareholder value.

As a result of the completion of our successful 2002 program and the deliberate diversification within our exploration and acquisition strategy, we enter 2003 prepared to meet the ongoing challenges of erratic commodity prices and economic uncertainty. We are positioned today with a diverse operating base geographically, geologically and in terms of commodity exposure. Our production revenue is a blend of commodities including natural gas, crude oil, natural gas liquids and heavy oil, which provides us greater flexibility to respond to commodity price-driven opportunities. Our Core Regions provide discreet geological opportunities within the Western Canadian Sedimentary Basin, and our technical teams are skilled in programs targeting reservoirs from shallow to deep horizons, with varying degrees of risk.

Looking forward, we are well prepared to meet the challenges that the future will bring and we are confident that we will continue to deliver above average operating and financial results for our shareholders. We expect that many of the pressures experienced over the past five years will continue to challenge us in the future. The industry will continue to work hard to keep the cost of finding, developing and producing reserves as low as possible, particularly as the average size of reservoirs diminish. Technology will support us in this regard, as we continue to improve the way we use seismic data and refine our understanding of sub-surface conditions and production optimization. While the industry's ownership will continue to shift, in the final analysis we believe that assets will naturally gravitate to those companies that can operate and produce reserves most efficiently. As we have in the past, we feel well prepared to meet these challenges.

While the industry's ownership will continue to shift, in the final analysis we believe that assets will naturally gravitate to those companies that can operate and produce reserves most efficiently.

Our results are due to a team effort and we want to express our continued admiration and appreciation for the dedicated support that we receive from the entire Bonavista team. There are currently 114 employees in our office in Calgary and at our field locations within our Core Regions. These individuals collectively bring the focus and expertise to our operations, allowing us to deliver these results. Thank you for your contributions and your enthusiasm. We also want to thank our Board of Directors for their continued support and guidance in our decision-making. And we want to thank you, our shareholders, for your ongoing confidence in the Bonavista team. We will continue to work hard to earn that confidence.

On behalf of the Board of Directors,

Keith A. MacPhail,
President and Chief Executive Officer

Ronald J. Poelzer,
Executive Vice President and Chief Financial Officer

April 3, 2003

Focus on People: The Bonavista Team

Our strength truly is our people. Our shared focus is value creation.

Nicholas Ayre
Connie Baker
Sherry Baranec
Kent Beakley
Joanne Bell
Michelle Beres
Connie Black
Douglas Black
Ernie Bradley
Michael Breen
Lamont Brooks
Keith Browning
Scott Cameron
Allan Carswell
Rhonda Chalmers
Don Connell
Bob Cook
Georgina Crump
John Curkan
Bob Dallyn
Steve Dalman
Heather Darrah
Kirby Deforest
Lyle Dietrich
Kevin Engman
Nancy Farmer
Tara Forbes
Allen Fothergill
Tim Galbreath

Renee Garneau
Shelley Gerber
Harold Gold
Myrna Griffin
Glenn Hamilton
Kerrie Hamilton
Scott Hanson
Melissa Hartwell
Gary Heffner
Tracey Hiemstra
Scott Hogg
Steve Hughes
Orest Humeniuk
Bruce Jensen
Baljinder Johl
Colleen Keeley
Drew Kennedy
Dean Kobelka
Ryan Kroeger
Don Lambert
Wayne Lashmore
Sylvie Law
Carrie Loewen
Bruce Luyendyk
Keith MacPhail
Bill Male
Wendy March
Angus McCallum
Chris McDavid

Dave McDonald
Jacqueline McEachern
Mike McLeod
Kristi Meckelberg
Wayne Merkel
Pat Miles
Carlos Monteiro
Greg Moody
Jessica Mos
Jerri Mowbray
Tom Mullane
Kathy Nashman
Debbie Needham
Sheri Needham
Donna Norndon
Brenda Odell
Tee Ong
Donna Orbeck
Mario Parente
Ryan Paulgaard
Wade Perry
Cheryl Piper
Ron Poelzer
Bill Portingale
Murry Rasmussen
Bob Regner
Darren Reid
Kathy Reinhart
Don Robertson

Darren Roblin
Dell Rodway
Martin Rogers
Marilyn Sanders
Bob Schonknecht
Jason Sherriffs
Jason Skehar
Ken Smith
Hank Spence
Ken Staniforth
Doug Stewart
Tara Sutherland
John Taylor
Johannes Thiessen
Lisa Thompson
Brian Tippe
Chris Turpin
Diane Vander Veen
Alex Verge
Heather Walker
Greg Warner
Linda Warren
Arlene Wickham
Gerald Willey
Brent Woods
Wendy Yu
Susan Yuen

Operations Review

We expanded our asset base significantly in 2002 through the investment of $267.9 million in our four Core Regions.

Wells Drilled

Success Rate (%)

78 81 84 85 **91**

Our program included drilling 196 wells with an overall success rate of 91 percent. Bonavista operated 169 of the 196 wells drilled and maintained an average working interest of 87 percent.

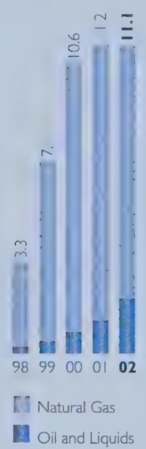
Operatorship and high working-interest ownership remain essential components of our business plan, enabling us to control the pace of Bonavista's growth and maximize the benefit to our shareholders. In addition to the exploration and development program in 2002, Bonavista completed 35 complementary acquisitions in its Core Regions. The most significant of these acquisitions occurred during the second quarter in our Southern Region. This acquisition resulted in the addition of 11 mmcf per day of natural gas and 1,700 bbls per day of light oil and natural gas liquids. We have identified numerous high impact drilling and recompletion opportunities on the existing producing lands as well as on the 50,000 net acres of undeveloped lands acquired in the transaction.

In 2003, Bonavista will invest between $300 and $330 million to expand our Core Regions, with approximately half of this amount allocated to exploration and development and the remainder to acquisitions. These capital expenditures are forecast to result in a 17 to 20 percent increase in average daily production to between 43,000 and 44,500 boe per day in 2003 from 36,693 boe per day in 2002.

Bonavista's major properties are concentrated within four Core Regions in Alberta and Saskatchewan. Each Region offers a large undeveloped land and seismic base with significant Company owned and operated production facilities. In addition, the multi-zone oil and natural gas potential, with mostly year round access, allows for a consistent and predictable growth pattern in each of the Regions. Bonavista's Core Regions constitute a well-balanced portfolio of Company-operated properties with considerable exploration, development, and acquisition potential. All of these factors will lead to the continued expansion of our production base in these areas.

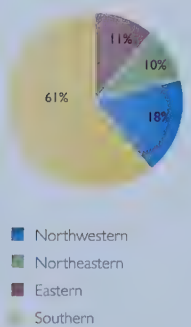
Northwestern Region

Production
(mboe/day)



Net Undeveloped Land
(thousands of acres)

Capital Expenditures by Core Area
($267.9 million)



The Northwestern Region represents approximately 38 percent of Bonavista's current natural gas production and 11 percent of oil and liquids production. Production is derived from a number of productive zones within the Mississippian, Triassic, Jurassic, and Cretaceous aged sands.

Production from this region in 2002 averaged 54.7 mmcf per day of natural gas and 1,981 bbls per day of oil and liquids for a total of 11,098 boe per day. The area produced mainly through 23 Company owned and operated facilities with an average working interest in these facilities of 91 percent. The Company also owns 445,366 net acres of undeveloped land in the region with an average working interest of 95 percent.

During 2002, Bonavista conducted an active exploration, development, and acquisition program totalling $48.1 million. The program included drilling 30 wells, resulting in 14 natural gas wells and five oil wells. We also completed 12 property acquisitions, which further increased our average working interest and undeveloped land holdings.

The Northwestern Region includes a diversified property base, mostly operated by Bonavista, which collectively accounted for:

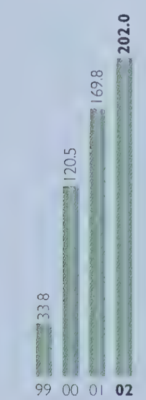
- 18 percent of 2002 capital expenditures
- 31 percent of 2002 production volumes
- 22 percent of proven and probable reserves at December 31, 2002
- 40 percent of undeveloped land holdings at December 31, 2002

In 2003, Bonavista plans to spend $25 million of its exploration and development capital in the Northwestern Region, which includes purchasing additional Crown land, shooting or acquiring additional seismic and drilling another 32 wells. Of this drilling Bonavista will target up to six higher impact, exploration wells. This program should allow Bonavista to increase production in the area by approximately five percent in 2003.

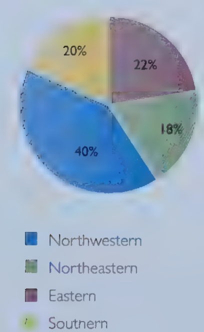
Northeastern Region

Production
(mboe/day)

Net Undeveloped Land
(thousands of acres)



Undeveloped Land by Core Area
(1.1 million net acres)



We established our Northeastern Region through six property acquisitions between July 1999 and January 2000. Since 2000, an active and successful three-year drilling program has resulted in this becoming Bonavista's largest producing region. Current production in the area is 26 mmcf per day of natural gas and 7,600 bbls per day of 13° API crude oil and originates from shallow horizons, primarily the Second White Specks, Sparky, Colony, Mclaren, and Lloydminster formations.

Production from the Northeastern Region in 2002 averaged 25.5 mmcf per day of natural gas and 7,411 bbls per day of heavy oil. The majority of this high working interest production flows through six Company-operated gas plants in the region. These facilities have a capacity of approximately 40 mmcf per day for natural gas leaving room for additional future natural gas volumes.

During 2002, Bonavista invested $26.9 million in the Northeastern Region. This investment included two property acquisitions and the drilling of 64 wells, with a 98 percent success rate, resulting in 18 natural gas wells and 45 heavy oil wells. We also undertook an active land acquisition program increasing our undeveloped land position by 19 percent to 202,042 net acres, which improves our future drilling prospect inventory.

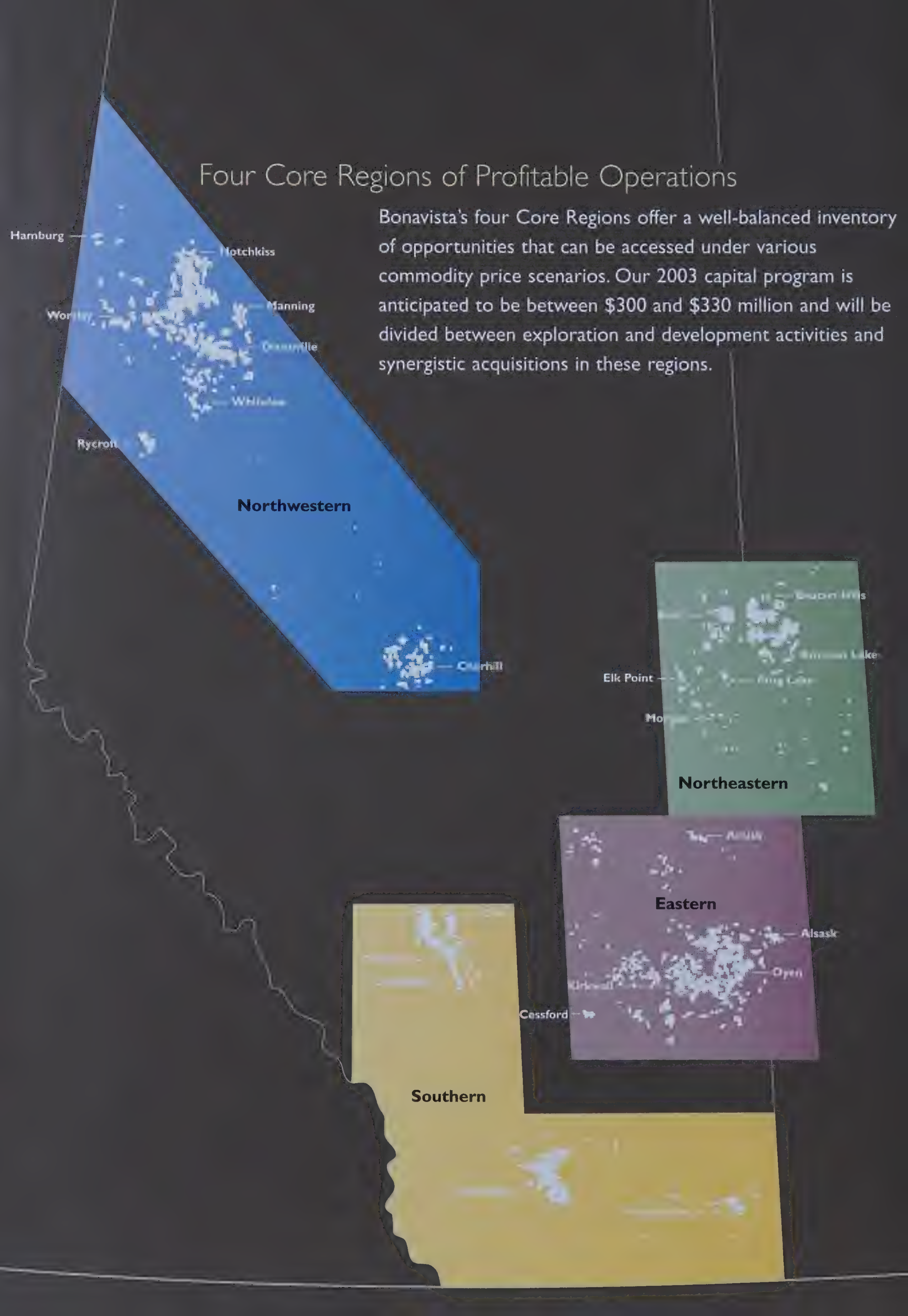
The Northeastern properties, virtually all of which Bonavista operates, accounted for:

- 10 percent of 2002 capital expenditures
- 32 percent of 2002 production volumes
- 30 percent of proven and probable reserves at December 31, 2002
- 18 percent of undeveloped land holdings at December 31, 2002

In 2003, Bonavista plans to invest $30 million of capital in the Northeastern Region to drill 20 natural gas wells and 50 heavy oil wells. The low risk nature of the area creates a high degree of predictability and should result in production volumes increasing to 28 mmcf per day of natural gas and 9,200 bbls per day of heavy oil by year-end 2003.

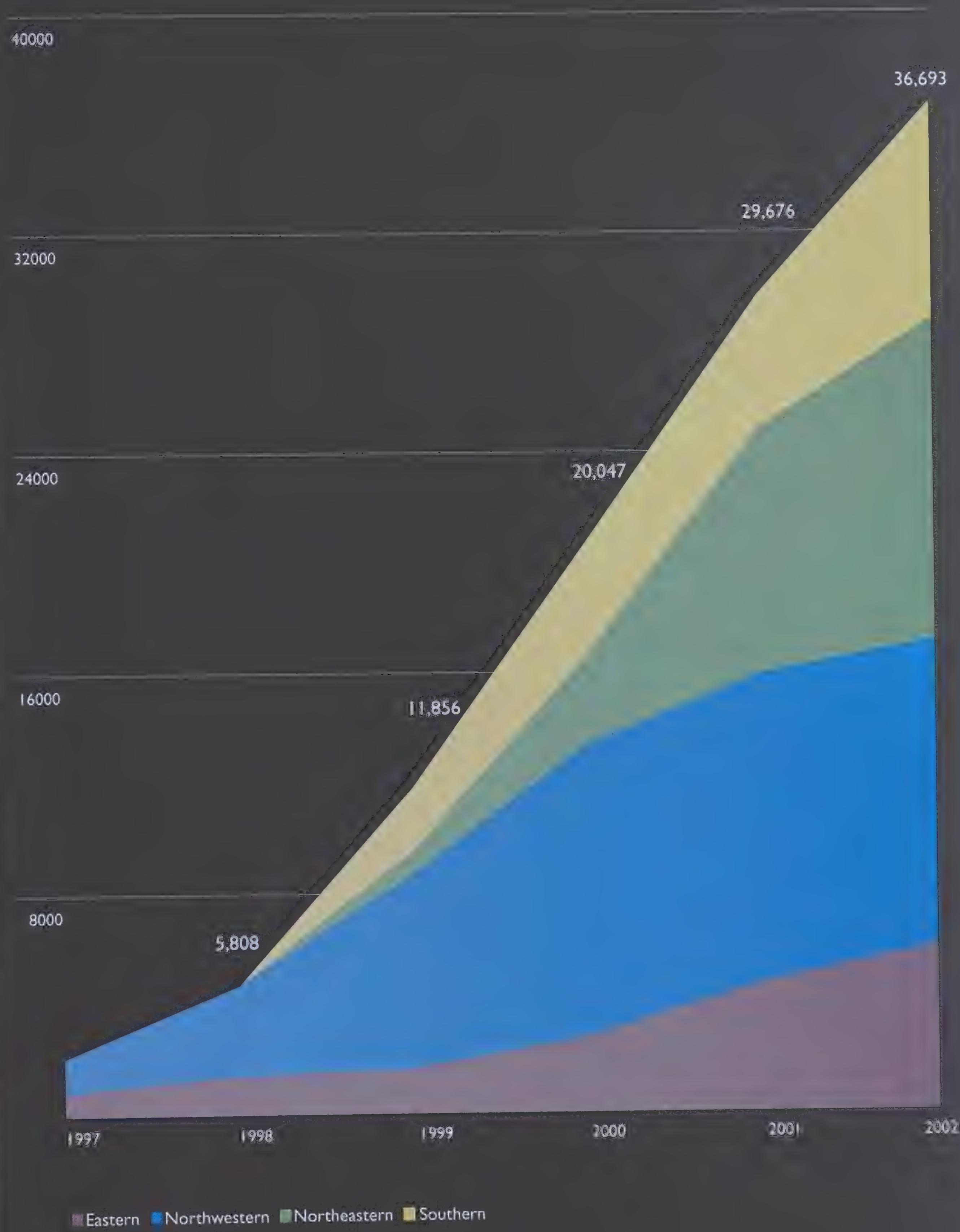
Four Core Regions of Profitable Operations

Bonavista's four Core Regions offer a well-balanced inventory of opportunities that can be accessed under various commodity price scenarios. Our 2003 capital program is anticipated to be between $300 and $330 million and will be divided between exploration and development activities and synergistic acquisitions in these regions.



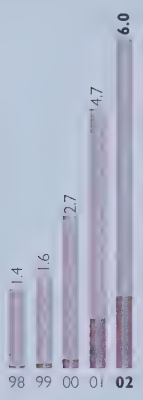
Production by Core Area

(average boe/day)

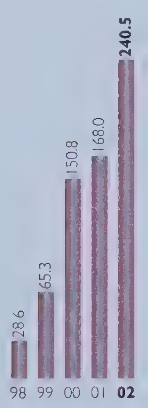


Eastern Region

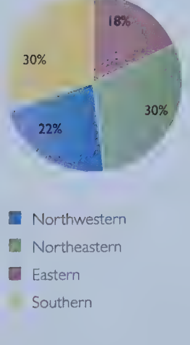
Production
(mboe/day)



Net Undeveloped Land
(thousands of acres)



Total Reserves by Core Area
(101.1 mmboe)



Bonavista's Eastern Region is its smallest producing region representing 18 percent of the Company's current overall production. This region is characterized as a shallow to medium depth, multi-zone area with natural gas production primarily from the Bakken, Glauconite, Colony, Viking and the Belly River zones while medium gravity oil originates from the Dina and Glauconite formations. In recent years, Bonavista has experienced excellent organic growth through the drill bit in the region by targeting these formations.

In the Eastern Region, Bonavista has an average working interest of 86 percent and operates 17 natural gas facilities and three oil batteries. Combined, these facilities have a processing capacity of approximately 60 mmcf per day for natural gas and 2,500 bbls per day for oil and liquids.

During 2002, Bonavista invested $28.9 million in the Eastern Region, which included drilling 48 wells with an average success rate of 94 percent and consummating five property acquisitions. We also installed or purchased two new compressors and increased our undeveloped land position to 240,535 net acres. As a result of tying-in recently drilled wells, current production from this region is 30 mmcf per day of natural gas and 1,700 bbls per day of oil and liquids. This compares to an average of 28.2 mmcf per day of natural gas and 1,302 bbls per day of oil and liquids in 2002.

The Eastern Region properties are mostly operated by Bonavista and accounted for:

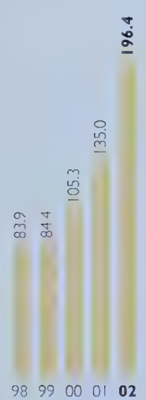
- 11 percent of capital expenditures
- 16 percent of 2002 production volumes
- 18 percent of proven and probable reserves at December 31, 2002
- 22 percent of undeveloped land holdings at December 31, 2002

In 2003, Bonavista plans to invest $28 million of exploration and development capital in the Eastern Region, drill 52 wells of which 40 will target natural gas and 12 will target oil prospects. Using the extensive 2D and 3D seismic recently shot, Bonavista expects to achieve similar success identifying overlooked, hydrocarbon-bearing, channel systems running through the area, as was the case in 2002. A combined vertical and horizontal drilling program in this area in 2003 should increase production to approximately 35 mmcf per day of natural gas and 2,500 bbls per day of oil and liquids by year-end 2003.

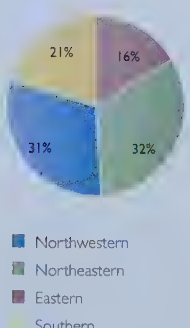
Southern Region

Production
(mboe/day)

Net Undeveloped Land
(thousands of acres)



Production by Core Area
(36.7 mboe/day)



The Southern Region was established in mid-1998 and has experienced tremendous growth in both oil and natural gas production since that time.

The region currently accounts for about 24 percent of the Company's production, representing 29 mmcf per day of natural gas production and 4,800 bbls per day of light gravity oil and natural gas liquids. The production is derived from a multitude of geologic horizons as deep as the Mississippian and Wabamun zones around Harmattan to as shallow as the Barons and Bow Island zones near the city of Lethbridge.

During 2002, Bonavista invested $159.9 million in the Southern Region, which included drilling 53 wells with an average success rate of 96 percent, completing 16 acquisitions, purchasing or installing five multi-well oil batteries and two gas plants, and increasing our undeveloped land position to 196,372 net acres. During the year, Bonavista continued to delineate the Barons light oil discovery made in 1999 by drilling 22 wells, primarily on the Blood First Nations lands, thereby increasing oil production to 1,350 bbls per day. The Company's pilot waterflood project is demonstrating signs of improved recoveries. Building on this success, we will proceed with a full scale project to be completed in 2003. As a result of the waterflood, oil recoveries are expected to improve by at least 25 percent or an incremental 10 mmbbls of oil.

The Southern Region properties, mostly operated by Bonavista, collectively accounted for:

- 61 percent of 2002 capital expenditures
- 21 percent of 2002 production volumes
- 30 percent of proven and probable reserves at December 31, 2002
- 20 percent of undeveloped land holdings at December 31, 2002

A major property acquisition completed in May 2002 expanded the Southern Region to the northwest into the Carstairs/Harmattan area and exposes the Company to deeper, higher impact opportunities which will be pursued aggressively in 2003 and beyond. This acquisition added 3,500 boe per day at less than $20,000 per boe per day of production and under $8.00 per boe of reserves. As a result of our aggressive investment strategy in the region, Bonavista's production averaged 22.9 mmcf per day of natural gas and 3,679 bbls per day of oil, light oil and natural gas liquids in 2002.

In 2003, Bonavista plans to invest a total of $55 million in exploration and development activities in the Southern Region, which will include shooting additional seismic, drilling 80 wells, installing facilities to bring new reserves onto production, completing the Barons waterflood facilities, and continuing to consolidate working interests in the region. Year-end production volumes are anticipated to reach 38 mmcf per day of natural gas and 5,400 bbls per day light oil and natural gas liquids as a result of this active 2003 program.

Net Undeveloped Land
(thousands of acres)

Undeveloped Land

Bonavista recognizes the importance of continually expanding its undeveloped land holdings in order to maintain an inventory of drilling prospects sufficient to sustain the Company's profitable growth. With this in mind, we expanded our land base significantly in 2002 through participation in Crown land sales, industry farm-ins and acquisitions of producing properties, which included undeveloped land. In 2002, Bonavista increased its land base by 28 percent to 1,108,414 net acres. Of this increase, 154,000 acres were acquired at Crown land sales at an average cost of $65 per acre. Almost 98 percent of Bonavista's undeveloped land is contained within our four Core Regions. The average working interest of Bonavista's undeveloped land was 87 percent in 2002. This high working interest ownership will continue due to the Company's desire to control all aspects of its business. Bonavista currently has identified more than 200 drilling locations on these lands.

In 2003, the Company will continue to expand its undeveloped acreage and accordingly, the number of drilling prospects. Total expenditures on Crown land purchases are anticipated to be $11.5 million in 2003. The following tables summarize Bonavista's inventory of undeveloped acreage on a year-to-year and Core Region comparative basis:

UNDEVELOPED LAND HOLDINGS

December 31,	2002	2001	% Change
Gross acres	**1,269,710**	986,224	29
Net acres	**1,108,414**	867,526	28
Average working interest	**87%**	88%	(1)
ESTIMATED VALUE ($ millions)	**90.9**	69.4	31

LAND HOLDINGS BY CORE REGION

	Gross	Net		Average Working Interest
	(acres)	(acres)	(% of total)	(%)
Northwestern	470,960	445,366	40	95
Northeastern	214,875	202,042	18	94
Eastern	280,183	240,535	22	86
Southern	244,113	196,372	18	80
Other areas	59,579	24,099	2	40
TOTAL UNDEVELOPED LAND	1,269,710	1,108,414	100	87

Seismic

Bonavista utilizes extensive two and three dimensional seismic to delineate geological features in all of our Core Regions, to increase the certainty of its drilling prospects. In 2002, Bonavista invested $22.4 million in seismic related activity. Approximately $13.5 million of the 2003 capital program has been allocated to acquiring additional seismic data, which will supplement our existing seismic database of more than 32,000 kilometres of 2D and more than 450 square kilometres of 3D data.

Petroleum Reserves

Independent engineers, McDaniel & Associates and Gilbert Laustsen Jung Associates, have evaluated over 90 percent of Bonavista's petroleum reserves as at January 1, 2003. The following table summarizes the key information of these reserves:

	Natural Gas		Oil and Liquids		Present Value of Cash Flow Before Tax Discounted at [2]		
	Gross[1]	Net[1]	Gross[1]	Net[1]	0%	10%	15%
	(mmcf)	(mmcf)	(mbbls)	(mbbls)		(thousands)	
Proven producing	179,410	142,374	25,670	22,352	$ 971,270	$ 706,799	$ 630,323
Proven non-producing	43,442	33,528	12,261	10,781	311,018	177,490	142,407
ARTC	–	–	–	–	8,929	4,233	3,242
Total proven	222,852	175,902	37,931	33,133	1,291,217	888,522	775,972
Probable	74,563	58,877	13,647	11,866	457,845	224,907	172,384
ARTC	–	–	–	–	1,427	236	106
TOTAL	297,415	234,779	51,578	44,999	$1,750,489	$1,113,665	$ 948,462

(1) "Gross" reserves are the total remaining recoverable reserves owned by Bonavista before deduction of royalties.
"Net" reserves are defined as those accruing to Bonavista after all royalty interests owned by others, including Crown and freehold royalties, have been deducted.

(2) The pricing forecast used in determining the value of cash flow is based on the January 1, 2003, forecast determined by McDaniel & Associates.

RECONCILIATION OF RESERVES

	Natural Gas			Oil and Liquids		
	Proven	Probable	Total	Proven	Probable	Total
		(mmcf)			(mbbls)	
Reserves, January 1, 2001	225,898	63,980	289,878	6,684	1,971	8,655
Net additions	52,293	14,563	66,856	24,917	6,516	31,433
Revisions	(20,923)	(9,036)	(29,959)	1,153	948	2,101
Production	(46,334)	–	(46,334)	(3,109)	–	(3,109)
Reserves, January 1, 2002	210,934	69,507	280,441	29,645	9,435	39,080
Net additions	73,173	17,715	90,888	11,369	3,214	14,583
Revisions	(13,257)	(12,659)	(25,916)	2,310	998	3,308
Production	(47,998)	–	(47,998)	(5,393)	–	(5,393)
Reserves, January 1, 2003	222,852	74,563	297,415	37,931	13,647	51,578

Reserve Life Index and Reserve Replacement Ratio

The following table outlines the longevity and the magnitude of reserve additions as indicated in the reserve life index and reserve replacement ratio for Bonavista in 2002:

	Natural Gas	Oil and Liquids	Total Boe
December 31, 2002 exit production	136 mmcf/day	16,300 bbls/day	39,000 boe/day
Reserve life index (years)			
Proven reserves	4.5	6.4	5.3
Proven and probable	6.0	8.7	7.1
Reserve replacement ratio (reserve additions/2002 production)			
Proven	1.5	2.1	1.8
Proven and probable	1.9	2.7	2.2

Efficiency Ratios

The following table outlines two performance measurements which capture the overall efficiency of capital invested during the year: finding and on-stream costs and the recycle ratio. In 2002, Bonavista posted solid results in these performance measurements, which provided the foundation for continued profitability.

	2002	2001	% Change
Net capital expenditures (thousands)	**$ 267,928**	$ 267,517	–
Reserve additions (mboe)			
Proven	**23,665**	31,298	(24)
Proven and probable	**28,720**	39,684	(28)
Finding and on-stream costs ($/boe)			
Proven	**11.32**	8.54	33
Proven and probable	**9.33**	6.74	38
Cash flow netback ($/boe)	**15.33**	17.36	(12)
Recycle ratio (cash flow netback/finding and on-stream costs)			
Proven	**1.4**	2.0	(30)
Proven and probable	**1.6**	2.6	(38)

Production

Bonavista's average daily production increased by 24 percent to 36,693 boe per day in 2002 from 29,676 boe per day in 2001. Natural gas production rose by 4 percent to 132 mmcf per day in 2002 from 127 mmcf per day in 2001, while oil and liquids production increased by 73 percent to 14,776 bbls per day in 2002 from 8,519 bbls per day in 2001. Entering the second quarter of 2003, production volumes are approximately 39,400 boe per day, consisting of 135 mmcf per day of natural gas and 16,400 bbls per day of oil and liquids.

PRODUCTION BY REGION

	2002 Average Production			2001 Average Production		
Region	**Natural Gas**	**Oil and Liquids**	**Total**	Natural Gas	Oil and Liquids	Total
	(mmcf/day)	(bbls/day)	(boe/day)	(mmcf/day)	(bbls/day)	(boe/day)
Northwestern	**54.7**	**1,981**	**11,098**	60.3	1,184	11,234
Northeastern	**25.5**	**7,411**	**11,661**	25.9	4,598	8,915
Eastern	**28.2**	**1,302**	**6,002**	22.5	917	4,667
Southern	**22.9**	**3,679**	**7,496**	16.8	1,364	4,164
Other	**0.7**	**403**	**436**	1.5	456	696
TOTAL PRODUCTION	**132.0**	**14,776**	**36,693**	127.0	8,519	29,676

Marketing

Natural Gas

The Company continues to maintain a risk-mitigating strategy and cultivate a diverse natural gas sales portfolio, which encompasses a variety of pricing mechanisms and term commitments. Bonavista's marketing objectives include protecting or securing minimum prices for up to 25 percent of its anticipated production for terms not exceeding two years. Our pricing methodology includes employing collars, floors or fixed price contracts. In order to control and manage credit risk and ensure competitive bids, Bonavista engages a number of reputable counterparties for our natural gas transactions. Our natural gas portfolio also includes sales to traditional aggregators.

The integration and application of these strategies resulted in an average realized price of Cdn$3.85 per mcf in 2002 compared to Cdn$5.11 per mcf in 2001. For 2003, the Company is forecasting its natural gas price to average Cdn$6.00 per mcf based on an expected average 2003 NYMEX price of US$4.75 per mmbtu. The respective contract portfolios for 2002 and a forecast for 2003 are comprised of the following:

Average Natural Gas Prices
($/mcf)

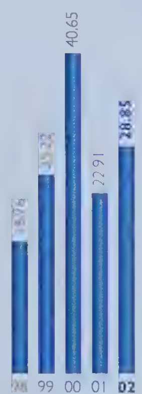
2002 Gas Contract Portfolio
Volume: 132 mmcf/d
Average Price: $3.85/mcf

2003F Gas Contract Portfolio
Volume: 150 mmcf/d
Average Price: $6.00/mcf

Oil and Liquids

Bonavista sells its oil and liquids production to a variety of purchasers. This enables the Company to benefit from specific regional advantages while maintaining pricing and delivery flexibility. In 2002, Bonavista's average realized oil and liquids price increased by 26 percent to Cdn$28.85 per bbl from Cdn$22.91 per bbl in 2001. Although the price of WTI oil remained relatively constant around US$26.00 per barrel in 2001 and 2002, Bonavista's increase in its average realized oil and liquids price was primarily due to the increase in the quality of Bonavista's crude oil and liquids production from 21° API in 2001 to 26° API in 2002. Our current strategy has only a limited amount of oil price hedging; however, Bonavista is continually monitoring global and regional crude oil markets and will be responsive towards hedging up to 25 percent of anticipated production. The 2003 budget is based on a WTI price of US$28.00 per bbl, which converts to approximately Cdn$30.50 per bbl at the wellhead.

Average Oil Prices
($/bbl)



Focus on Fundamentals

The fundamental test of the execution of a strategy by a team of people is the results they are able to produce. Not only do we measure absolute performance, we also examine every key measurement on a per share and per boe basis to ensure that real growth is being generated for our shareholders.

Management's Discussion and Analysis

Management's Discussion and Analysis of Bonavista's financial position and results of operations should be read in conjunction with the consolidated financial statements presented in this Annual Report.

Overview

The tables below set forth a summary of operations, including netback for 2002 compared to 2001, and netback on a product basis:

	2002		2001		% Change 2002-2001	
Production	**36,693 boe/day**		29,676 boe/day		24%	
	(thousands)	($/boe)	(thousands)	($/boe)	(total)	(boe)
FIELD NETBACK:						
Production revenue	**$ 340,172**	**$ 25.40**	$ 307,858	$ 28.42	10	(10)
Royalties, net of ARTC	**(66,090)**	**(4.94)**	(74,470)	(6.87)	(11)	(28)
Operating expenses	**(54,107)**	**(4.04)**	(35,106)	(3.24)	54	25
FIELD NETBACK	**219,975**	**16.42**	198,282	18.31	11	(10)
General and administrative	**(2,705)**	**(0.20)**	(1,978)	(0.18)	37	11
Financing charges	**(6,295)**	**(0.47)**	(6,345)	(0.59)	(1)	(20)
Current income taxes	**(5,619)**	**(0.42)**	(1,913)	(0.18)	194	133
CASH FLOW NETBACK	**205,356**	**15.33**	188,046	17.36	9	(12)
Depreciation,depletion and site restoration	**(93,453)**	**(6.98)**	(65,177)	(6.02)	43	16
Future income taxes	**(41,601)**	**(3.10)**	(47,772)	(4.41)	(13)	(30)
NET INCOME	**$ 70,302**	**$ 5.25**	$ 75,097	$ 6.93	(6)	(24)

Netback by Product

	Oil and Liquids Light and Medium		Heavy		Natural Gas		2002 Total	
2002 Production	**7,255 bbls/day**		**7,521 bbls/day**		**132 mmcf/day**		**36,693 boe/day**	
	(thousands)	($/bbl)	(thousands)	($/bbl)	(thousands)	($/mcf)	(thousands)	($/boe)
FIELD NETBACK:								
Production revenue	$ 88,426	$ 33.40	$ 67,157	$ 24.46	$ 184,589	$ 3.85	$ 340,172	$ 25.40
Royalties, net of ARTC	(15,749)	(5.95)	(5,670)	(2.06)	(44,671)	(0.93)	(66,090)	(4.94)
Operating expenses	(16,299)	(6.16)	(17,263)	(6.29)	(20,545)	(0.43)	(54,107)	(4.04)
FIELD NETBACK	$ 56,378	$ 21.29	$ 44,224	$ 16.11	$ 119,373	$ 2.49	$ 219,975	$ 16.42

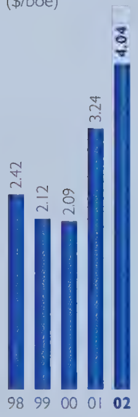
Revenue
($ millions)

Revenues

The consistent execution of Bonavista's business plan resulted in higher revenues, production and cash flow in 2002. Gross revenues increased by 10 percent to $340.2 million in 2002 from $307.9 million in 2001. Natural gas revenues decreased by 22 percent to $184.6 million in 2002 from $236.6 million in 2001. Natural gas production increased by four percent to 132 mmcf per day in 2002 from 127 mmcf per day in 2001. At the same time, natural gas prices decreased 25 percent to $3.85 per mcf in 2002 from $5.11 per mcf in 2001. Revenues from oil and liquids increased by 118 percent to $155.6 million in 2002 from $71.2 million in 2001, primarily as a result of an 85 percent increase in light and medium oil and liquids production to 7,255 bbls per day in 2002 from 3,921 bbls per day in 2001, the 64 percent increase in heavy oil production to 7,521 in 2002 from 4,598 bbls per day in 2001 and a 26 percent increase in total oil price to $28.85 per bbl in 2002 from $22.91 per bbl in 2001.

Bonavista exited 2002 with a strong production base of 136 mmcf per day of natural gas, 8,300 bbls per day of light and medium oil and 8,000 bbls per day of heavy oil. This production base provides the foundation for future revenue generation in 2003 and beyond.

Operating Expenses
($/boe)



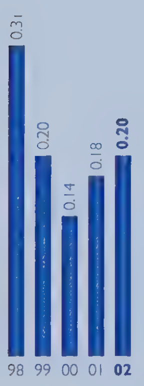
Royalties

In 2002, royalties decreased by 11 percent to $66.1 million from $74.5 million in 2001 due to lower natural gas prices. The average royalty rate decreased to 19.4 percent in 2002 from 24.2 percent in 2001 because of lower natural gas prices and lower royalty rates associated with heavy oil production.

Operating Expenses

Increased oil and liquids production volumes during the year primarily contributed to a 54 percent increase in operating expenses, which totalled $54.1 million in 2002 compared to $35.1 million in 2001. On a per boe basis, operating expenses increased by 25 percent to $4.04 in 2002 from $3.24 in 2001. This increase in average unit operating expenses is due to the Company's production mix being weighted more towards light and heavy oil during the year, coupled with the industry wide pressure on costs. In 2002, oil and liquids production amounted to 40 percent of total production compared to 29 percent in the same period of 2001.

General and Administrative Expenses
($/boe)



General and Administrative Expenses

General and administrative expenses, after overhead recoveries, increased by 37 percent to $2.7 million in 2002 from $2.0 million in 2001. This increase was due to higher staffing levels required to manage Bonavista's larger production volumes. On a per boe basis, net general and administrative expenses increased by 11 percent to $0.20 per boe in 2002 from $0.18 per boe in 2001. While staffing levels have increased, the Company is still focused on control of its administrative cost structure and remains one of the most efficiently run organizations in the industry.

Financing Charges

Financing charges decreased slightly to $6.3 million in the twelve months ended December 31, 2002 from $6.4 million in the same period in 2001, and on a per boe basis decreased 20 percent to $0.47 per boe in 2002 from $0.59 per boe for the same period in 2001. These reductions are a consequence of both increased production levels and lower average interest rates during the period. Currently, Bonavista's average borrowing rate is approximately 3.6 percent.

Depreciation, Depletion and Site Restoration

Depreciation, depletion and site restoration expenses increased 43 percent to $93.5 million for the year ended December 31, 2002 from $65.2 million in the same period of 2001 due to Bonavista's increased production levels and larger asset base. The average unit cost also increased to $6.98 per boe in 2002 from $6.02 per boe in the same period of 2001 due to the overall increased cost of adding new reserves, which is a trend being experienced throughout the industry.

Income and Other Taxes

The provision for income and other taxes decreased five percent to $47.2 million for the twelve months ended December 31, 2002 from $49.7 million during the same period in 2001 due to a corresponding decrease in pre-tax income generated from operations. Included in income taxes for the year ended December 31, 2002 is a provision of $5.6 million for current income and capital taxes.

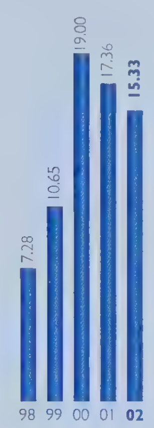
Cash Flow and Net Income

Despite a lower natural gas price realized in 2002, Bonavista's significant increase in year-over-year production volumes resulted in an increase in cash flow with strong net income in 2002. Cash flow from operations was nine percent higher at $205.4 million ($6.56 per share basic) in 2002 compared to $188.0 million ($6.51 per share basic) recorded in 2001. Primarily due to higher depletion charges related to pressure on costs in adding new reserves, felt throughout the industry, net income decreased six percent to $70.3 million ($2.25 per share basic) in 2002 from $75.1 million ($2.60 per share basic) in 2001.

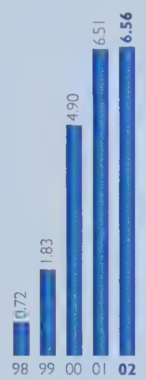
Capital Expenditures

Bonavista conducted an aggressive acquisition, exploration and development capital program in 2002 by investing $267.9 million. During the year, the Company participated in the drilling of 196 wells, with an overall success rate of 91 percent and invested $142.3 million in 35 acquisitions. This program resulted in the addition of 23.7 million boe of proven reserves and 28.7 million boe of proven and probable reserves through drilling and acquisitions, net of revisions and dispositions. With $267.9 million of net capital expenditures in 2002, the cost of reserve additions was $11.32 per boe on a proven basis and $9.33 per boe on a proven plus probable basis.

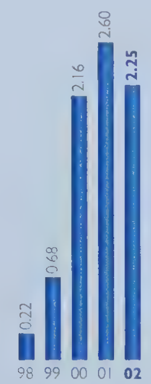
Cash Flow Netback ($/boe)



Cash Flow per Share – Basic ($/share)



Net Income per Share – Basic ($/share)



Net Capital Expenditures
($ millions)

Debt: Cash Flow
(ratio)

The following table outlines the Company's capital expenditures in 2002 compared to 2001:

	2002	2001
(thousands)		
Land and acquisitions	**$ 153,592**	$ 166,220
Geological and geophysical	**22,371**	11,675
Drilling and completions	**64,282**	58,563
Production equipment and facilities	**28,004**	31,057
Other	**685**	184
Total capital expenditures	**268,934**	267,699
Dispositions	**(1,006)**	(182)
NET CAPITAL EXPENDITURES	**$ 267,928**	$ 267,517

Tax pools

Bonavista had $521.7 million of tax pools as at December 31, 2002 and the following table summarizes the tax pool balances:

	Available Balance	Maximum Annual Deduction
	(thousands)	(%)
Canadian Exploration Expense	$ –	100
Canadian Development Expense	95,227	30
Canadian Oil and Gas Property Expense	273,789	10
Undepreciated Capital Cost	148,702	8 – 30
Other	3,974	20 – 100
TOTAL	$ 521,692	

Liquidity and Capital Resources

Depending on the economic and commodity price environment, Bonavista's 2003 capital expenditure program is expected to range from $300 million to $330 million. The capital program will be financed from approximately $275 million to $290 million of expected 2003 cash flow, with the residual amount being financed from the Company's bank loan facility.

In 2003, most of Bonavista's capital expenditures will be discretionary expenditures focused on exploration, development and acquisition activity, with only $8 million of capital expenditures expected to be non-discretionary in nature. Bonavista is readily able to adjust its capital expenditures as opportunities arise. As at December 31, 2002, Bonavista's net debt to running cash flow ratio was approximately 0.5:1. With the present profile of capital spending and cash flow growth, Bonavista anticipates its exit debt at December 31, 2003 to be approximately 0.5 times running cash flow based on 2003 exit production rates.

In anticipation of growing into a larger operating entity and through the ongoing acquisition, exploration, and development opportunities, Bonavista completed the refinancing of its bank loan facility in January 2001, through the establishment of a $160 million revolving demand loan facility with a syndicate of Canadian chartered banks. This syndicated bank loan was increased to $220 million in May 2001 and bears interest at prime. In May 2002, the Company and its lenders amended the Company's revolving bank loan facility to increase the maximum borrowing to $290 million. The facility is subject to an annual review by the lenders, at which time a lender can request conversion to a term loan for one year. Under the term period, no principal payments would be required until one year after the renewal date of May 31, 2003. In the second quarter of 2002, Bonavista completed a public offering of 2.5 million common shares for gross proceeds of $80 million to further strengthen its shareholder base, fund the expanded 2002 capital budget and provide flexibility for future years' capital programs.

The Company settles sales receivables and trade payables in accordance with normal industry practices, with working capital liquidity maintained through drawing and repaying the syndicated demand bank facility.

Business Risks

All companies in the Canadian oil and natural gas industry are exposed to a number of business risks, some of which are beyond their control. These risks can be categorized as operational, financial and regulatory.

Operational risks include finding and developing natural gas and oil reserves on an economical basis, reservoir production performance, marketing production, hiring and retaining employees and accessing contract services on a cost effective basis. By employing a team of highly qualified staff, providing a compensation system that rewards above average performance and developing strong long-term relationships with contract service providers, these risks are mitigated. Bonavista maintains an insurance program consistent with industry practice to protect against destruction of assets, well blowouts, pollution and other business interruptions. We also maintain a geologically diverse, but geographically concentrated prospect inventory, undertake a large drilling program and use proven technology where appropriate to minimize the cost of finding and developing natural gas and oil reserves.

Financial risks include commodity prices, interest rates and the $Cdn/US exchange rate, all of which are largely beyond Bonavista's control. While the Company has used financial instruments in the past, currently there are none in place with respect to these risks. Bonavista's approach to managing these risks is to maintain a prudent level of debt, enter into certain fixed price, physical delivery and commodity-based contracts and to use its strong financial position to fund exploration and development activities and acquisitions through fluctuations in these variables.

Bonavista is also subject to various regulatory risks, many of which are beyond our control. We take a proactive approach with respect to environmental and safety matters such as maintaining an environmental and safety program whereby major facilities are regularly audited by an independent consultant. A Corporate and site specific emergency response plan is in place and complies with current environmental legislation.

Management's Report

The preparation of the accompanying consolidated financial statements in accordance with accounting principles generally accepted in Canada is the responsibility of management. Financial information contained elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

Management is responsible for the integrity and objectivity of the financial statements. Where necessary, the financial statements include estimates, which are based on management's informed judgments. Management has established systems of internal controls, which are designed to provide reasonable assurance those assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for the preparation of financial information.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. It exercises its responsibilities primarily through the Audit Committee, all of whose members are non-management directors. The Audit Committee has reviewed the consolidated financial statements with management and the auditors and has reported to the Board of Directors, which have approved the consolidated financial statements.

KPMG LLP are independent auditors appointed by Bonavista's shareholders. The auditors have considered, for the purposes of determining the nature, timing and extent of their audit procedures, the Company's internal controls and have audited the consolidated financial statements in accordance with generally accepted auditing standards to enable them to express an opinion on the fairness of the financial statements.

Keith A. MacPhail
President and Chief Executive Officer

Ronald J. Poelzer
Executive Vice President and Chief Financial Officer

Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of Bonavista Petroleum Ltd. as at December 31, 2002 and 2001 and the consolidated statements of operations and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Calgary, Canada
February 26, 2003

Consolidated Balance Sheets

December 31,	2002	2001
(thousands)		
Assets		
Current assets		
Accounts receivable	$ 48,592	$ 34,896
Oil and natural gas properties		
and equipment (notes 2 and 3)	684,834	505,706
	$ 733,426	$ 540,602
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	$ 48,885	$ 42,664
Long-term debt (note 4)	133,605	140,595
Site restoration provision	9,986	6,597
Future income taxes (note 6)	138,429	102,801
Shareholders' equity		
Share capital (note 5)	174,108	89,834
Retained earnings	228,413	158,111
	402,521	247,945
	$ 733,426	$ 540,602

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

Michael M. Kanovsky
Director

Clayton H. Woitas
Director

Consolidated Statements of Operations and Retained Earnings

Years ended December 31,	2002	2001
(thousands, except per share amounts)		
Revenues		
Production	$ 340,172	$ 307,858
Royalties, net of Alberta Royalty Tax Credit	(66,090)	(74,470)
	274,082	233,388
Expenses		
Operating	54,107	35,106
General and administrative	2,705	1,978
Financing charges	6,295	6,345
Depreciation, depletion and site restoration	93,453	65,177
	156,560	108,606
Income before income and other taxes	117,522	124,782
Income and other taxes (note 6)	47,220	49,685
Net income	70,302	75,097
Retained earnings, beginning of year	158,111	83,014
Retained earnings, end of year	$ 228,413	$ 158,111
Net income per share – Basic	$ 2.25	$ 2.60
Net income per share – Diluted	$ 2.21	$ 2.50

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended December 31,	2002	2001
(thousands, except per share amounts)		
Cash provided by (used in)		
Operating Activities		
Net income	$ 70,302	$ 75,097
Items not requiring cash		
Depreciation, depletion and site restoration	93,453	65,177
Future income taxes	41,601	47,772
Cash flow from operations	205,356	188,046
Decrease (Increase) in non-cash working capital items	(7,475)	9,094
	197,881	197,140
Financing Activities		
Issuance of share capital, net of share issue costs	78,301	457
(Decrease) Increase in long-term debt (note 4)	(6,990)	65,061
	71,311	65,518
Investing Activities		
Oil and natural gas properties		
and equipment additions (note 2)	(268,934)	(261,857)
Proceeds on sale of oil and natural gas properties	1,006	182
Site restoration expenditures	(1,264)	(983)
	(269,192)	(262,658)
Increase (Decrease) in cash	–	–
Cash, beginning of year	–	–
Cash, end of year	$ –	$ –
Cash flow from operations per share – Basic	$ 6.56	$ 6.51
Cash flow from operations per share – Diluted	$ 6.47	$ 6.26

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years ended December 31, 2002 and 2001

1. Significant accounting policies

As the determination of many assets, liabilities, revenues and expenses is dependent upon future events, the preparation of these consolidated financial statements requires the use of estimates and assumptions which have been made using careful judgement. In the opinion of management, these consolidated financial statements have been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

(a) Principles of consolidation

The consolidated financial statements include the accounts of Bonavista Petroleum Ltd. (the "Company") and its wholly owned subsidiary and partnership.

(b) Oil and natural gas operations

The Company follows the full cost method of accounting, whereby all costs associated with the exploration for and development of oil and natural gas reserves are capitalized in cost centres on a country-by-country basis. Such costs include land acquisitions, drilling, well equipment and geological and geophysical activities. General and administrative costs are not capitalized. Gains or losses are not recognized upon disposition of oil and natural gas properties unless crediting the proceeds against accumulated costs would result in a change in the rate of depletion of 20 percent or more.

Costs capitalized in the cost centres, including well equipment, together with estimated future capital costs associated with proven reserves, are depreciated and depleted using the unit-of-production method which is based on gross production and estimated proven oil and natural gas reserves as determined by independent engineers. The cost of significant unproven properties is excluded from the depreciation and depletion base. For purposes of the depreciation and depletion calculations, oil and natural gas reserves are converted to a common unit of measure on the basis of their relative energy content. Facilities are depreciated using the declining balance method over their useful lives, which range from 12 to 15 years. Office equipment is recorded at cost and is depreciated over the useful life of the assets on the declining balance basis at 20 percent.

The provision for future site restoration costs is calculated using the unit-of-production method and is included within the provision for depreciation, depletion and site restoration. Costs are estimated each year by management based upon current regulations, costs, technology and industry standards. Actual costs as incurred are charged against the accumulated liability.

In applying the full cost method, the Company calculates a ceiling test which restricts the capitalized costs less accumulated depreciation and depletion from exceeding an amount equal to the estimated undiscounted value of future net revenues from proven oil and natural gas reserves, based on year-end prices and costs, plus the cost, net of impairments, of unproven properties and after deducting estimated future site restoration costs, general and administrative expenses, financing costs and income taxes.

(c) Financial instruments

From time to time, the Company may use swap agreements or other financial instruments to hedge its exposure to fluctuations in oil and natural gas prices. Gains and losses arising from these swap arrangements are reported as adjustments to the related revenue account over the term of the financial instrument. Financial instruments are not used for speculative purposes. The carrying values of the Company's monetary assets and liabilities approximate their fair values.

(d) Income taxes payable

The Company follows the liability method of accounting for future income taxes.

(e) Per share amounts

Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common shares. The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments.

2. Acquisition of Passage Energy

On May 4, 2001, the Company acquired all of the issued and outstanding shares of three private companies, collectively referred to as Passage Energy, in exchange for cash consideration. The acquisition has been accounted for using the purchase method, with results of operations included from the date of acquisition. Details of the acquisition are as follows:

Net assets acquired	
(thousands)	
Oil and natural gas properties	$ 92,691
Working capital deficiency	(5,842)
Future income tax adjustment to oil and natural gas properties	20,000
Future income taxes	(20,000)
Purchase price, cash	$ 86,849

3. Oil and natural gas properties and equipment

	Cost	Accumulated depreciation and depletion	Net book value
(thousands)			
December 31, 2002			
Oil and natural gas properties	**$ 715,602**	**$ 188,805**	**$ 526,797**
Facilities and well equipment	**190,009**	**32,984**	**157,025**
Office equipment	**1,905**	**893**	**1,012**
	$ 907,516	**$ 222,682**	**$ 684,834**
(thousands)			
December 31, 2001			
Oil and natural gas properties	$ 535,814	$ 113,702	$ 422,112
Facilities and well equipment	102,555	19,540	83,015
Office equipment	1,220	641	579
	$ 639,589	$ 133,883	$ 505,706

Unproven property costs of $76,209,000 as at December 31, 2002 (2001 – $53,834,000) were excluded from the depreciation and depletion calculation. During the year ended December 31, 2002, the Company recorded a provision of $4,653,000 (2001 – $2,771,000) for site restoration in the consolidated financial statements.

4. Long-term debt

The Company has a $290 million revolving production loan facility with a syndicate of Canadian chartered banks, which provides that borrowings may be made by way of prime loans, bankers' acceptances and/or US dollar LIBOR advances. These advances bear interest at the banks' prime rate and/or at money market rates plus a stamping fee. The bank loan facility is secured by a first floating charge debenture, general assignment of book debts and the Company's oil and natural gas properties and equipment. The facility is subject to an annual review by the lenders, at which time a lender can request conversion to a term loan for one year. Under the term period, no principal payments would be required until one year after the renewal date May 31, 2003. During the year ended December 31, 2002 the Company paid cash interest of $6,230,000 (2001 – $5,613,000).

5. Share capital

(a) Authorized

Unlimited number of voting Common Shares and Preferred Shares.

(b) Common shares issued

	Common Shares Number	Common Shares Amount
(thousands)		
Outstanding as at December 31, 2000	28,476	$ 87,551
Issued for cash:		
Exercise of stock options	819	2,083
Issued on acquisition of oil and natural gas properties	8	257
Costs associated with shares issued	–	(57)
Outstanding as at December 31, 2001	29,303	89,834
Issued for cash:		
Public offering of shares	2,500	80,000
Exercise of stock options	626	6,337
Costs associated with shares issued	–	(2,063)
Outstanding as at December 31, 2002	**32,429**	**$ 174,108**

(c) Per share amounts

During year ended December 31, 2002, there were 31,304,921 (2001 – 28,900,493) weighted average shares outstanding. On a diluted basis, there were 31,752,520 (2001 – 29,996,236) weighted average shares outstanding after giving effect for dilutive stock options.

(d) Options

The Company has established a stock option plan whereby officers, directors, and employees may be granted options to purchase Common Shares. Prior to January 1, 2001, options were granted for a term of five years and vested at the rate of either 25 percent or 33$^{1}/_{3}$ percent per year. Commencing January 1, 2001 options granted vest at the rate of 25 percent per year and expire two years after the date of vesting to a maximum term of six years.

Stock option summary of transactions for the years ended December 31, 2002 and 2001 are as follows:

	2002		2001	
	Options outstanding	**Weighted average exercise price**	Options outstanding	Weighted average exercise price
January 1,	**2,085,770**	**$ 17.68**	2,280,386	$ 8.11
Granted	**1,072,059**	**31.08**	918,800	28.42
Exercised	**(625,597)**	**(6.03)**	(819,410)	(3.30)
Cancelled	**(143,321)**	**(15.56)**	(294,006)	(17.09)
December 31,	**2,388,911**	**$ 26.87**	2,085,770	$ 17.68

The following table summarizes stock options outstanding and exercisable under the plan at December 31, 2002:

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding at year-end	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at year-end	Weighted average exercise price
\$5.05 to \$27.00	831,386	2.5	\$ 19.72	208,236	\$ 13.87
\$27.10 to \$31.40	710,350	3.1	29.37	170,075	29.05
\$31.42 to \$33.50	847,175	4.1	31.79	159,750	32.09
\$5.05 to \$33.50	2,388,911	3.2	\$ 26.87	538,061	\$ 24.08

(e) Stock-based compensation

The Company uses the intrinsic value method to account for stock-based compensation costs. Under this method, no compensation costs are recorded in the financial statements for stock options granted. If the fair value based method had been used, the stock-based compensation costs, pro forma net income and pro forma net income per share would be as follows:

Year ended December 31, 2002 (thousands, except per share amounts)	
Stock-based compensation	\$ 602
Net income	
As reported	\$ 70,302
Pro forma	\$ 69,700
Net income per common share	
Basic	
As reported	\$ 2.25
Pro forma	\$ 2.23
Diluted	
As reported	\$ 2.21
Pro forma	\$ 2.20

The pro forma amounts include the compensation costs associated with stock options granted subsequent to January 1, 2002. The fair value of each option granted was estimated on the date of grant using the Modified Black-Scholes option pricing model. In the pricing model the fair value of stock options granted was \$9.35 per share; risk free interest rate was 3.5 percent; volatility of 29 percent; and an expected life of 4.5 years.

6. Income taxes

The provision for income tax differs from the result of which would have been obtained by applying the combined Federal and Provincial income tax rate to the income before taxes. This difference results from the following items:

Years ended December 31,	2002	2001
Expected tax rate	42.2%	42.6%
(thousands)		
Expected tax expense	$ 49,571	$ 53,157
Non-deductible Crown payments, net of Alberta Royalty Tax Credit	19,925	23,969
Resource allowance	(26,672)	(27,042)
Other	1,577	(2,312)
Capital taxes	2,819	1,913
Provision for income taxes	$ 47,220	$ 49,685
The provision for income taxes consists of:		
Current	$ 5,619	$ 1,913
Future	41,601	47,772
Provision for income taxes	$ 47,220	$ 49,685

The significant components of future income tax liabilities and assets as at December 31, are:

	2002	2001
(thousands)		
Oil and natural gas properties	$ 123,657	$ 100,420
Facilities and well equipment	18,818	9,170
Site restoration provision	(3,159)	(2,810)
Other	–	(3,475)
Share issue costs	(887)	(504)
Future income taxes	$ 138,429	$ 102,801

7. Hedging activities

(a) Financial instruments

As at December 31, 2002, the Company has hedged financially, by way of costless collars, 2,000 bbls per day of crude oil for the period from January 1, 2003 to March 31, 2003. These collars have a floor price of US$23.50; a ceiling price of US$29.63 per bbl and a year end market value deficiency of $538,000.

(a) Physical purchase contracts

The Company has entered into direct sale costless collars averaging 27,500 gjs per day for 2003. These contracts have an average floor price of $4.38 per gj at AECO and an average ceiling price of $6.58 per gj at AECO. The Company has also sold forward 2,000 bbls per day for the period from January 1, 2003 to March 31, 2003 at a price of $29.20 per bbl at Hardisty for Lloyd blend.

Five-Year Summary

Years ending December 31	2002	2001	2000	1999	1998
(thousands, except per share amounts)					
Financial					
Production revenue	**340,172**	307,858	214,168	72,135	26,857
Cash flow from operations	**205,356**	188,046	139,059	46,067	15,442
Per share – basic	**6.56**	6.51	4.90	1.83	0.72
Per share – diluted	**6.47**	6.26	4.65	1.64	0.61
Net income	**70,302**	75,097	61,360	17,098	4,616
Per share – basic	**2.25**	2.60	2.16	0.68	0.22
Per share – diluted	**2.21**	2.50	2.05	0.61	0.20
Total assets	**733,426**	540,602	325,842	177,502	97,700
Long-term debt, net of working capital	**133,898**	148,363	68,365	43,221	35,978
Shareholders' equity	**402,521**	247,945	170,565	107,860	53,306
Net capital expenditures	**267,928**	267,517	154,637	101,416	55,995
Common shares outstanding at year-end					
Basic	**32,429**	29,304	28,476	28,257	22,459
Diluted	**34,818**	31,391	30,757	30,528	27,674
Share trading information					
High	**35.60**	34.75	32.00	18.50	9.50
Low	**25.50**	21.75	15.00	7.40	3.30
Close	**34.04**	27.00	31.40	16.30	8.50
Operational (boe conversion 6:1 basis)					
Production					
Natural gas (mmcf/day)	**132**	127	109	66	31
Light and medium oil (bbls/day)	**7,255**	3,921	1,869	873	642
Heavy oil (bbls/day)	**7,521**	4,598	–	–	–
Total oil equivalent (boe/day)	**36,693**	29,676	20,047	11,856	5,808
Product pricing					
Natural gas ($/mcf)	**3.85**	5.11	4.67	2.67	2.03
Light and medium oil ($/bbl)	**33.40**	29.82	40.65	25.22	16.76
Heavy oil ($/bbl)	**24.46**	17.01	–	–	–
Total oil ($/bbl)	**28.85**	22.91	40.65	25.22	16.76
Undeveloped land					
Gross acres	**1,269,710**	986,224	755,949	513,953	337,024
Net acres	**1,108,414**	867,526	642,507	416,396	244,258
Average working interest	**87%**	88%	85%	81%	72%
Proven and probable reserves					
Natural gas (bcf)	**297.4**	280.4	289.9	223.6	121.7
Oil and liquids (mbbls)	**51,578**	39,080	8,655	3,337	1,789
Total barrels of oil equivalent (mboe)	**101,147**	85,813	56,968	40,604	22,072
Drilling activity					
Natural gas	**81**	90	84	69	27
Light and medium oil	**53**	26	29	4	5
Heavy oil	**45**	12	–	–	–
Dry and abandoned	**17**	23	21	17	9
Total wells drilled	**196**	151	134	90	41
Drilling success rate	**91%**	85%	84%	81%	78%

Corporate Information

OFFICERS AND MANAGEMENT

Keith A. MacPhail
Chairman, President and CEO

Ronald J. Poelzer
Executive Vice President and CFO

John A. Curkan
Vice President, Marketing

Glenn A. Hamilton
Vice President, Finance

Orest G. Humeniuk
Vice President, Land

Hank R. Spence
Vice President, Operations

Johannes H. Thiessen
Vice President, Exploration

Alex G. Verge
Vice President, Engineering

Tim T. Galbreath
Manager, Aboriginal Affairs

Jason E. Skehar
Production Manager

Douglas G. Stewart
Chief Geophysicist

Greg R. Warner
Controller

Grant A. Zawalsky
Corporate Secretary

DIRECTORS

Keith A. MacPhail
Chairman, President and CEO

Michael M. Kanovsky
Sky Energy Corporation

Harry L. Knutson
Nova Bancorp Inc.

Ronald J. Poelzer
Executive Vice President and CFO

Clayton H. Woitas
Profico Energy Management Ltd.

AUDITORS

KPMG LLP
Calgary, Alberta

BANKERS

Canadian Imperial Bank of Commerce

Bank of Montreal

Royal Bank of Canada

The Toronto-Dominion Bank
Calgary, Alberta

ENGINEERING CONSULTANTS

Gilbert Laustsen Jung Associates Ltd.

McDaniel & Associates Consultants Ltd.
Calgary, Alberta

LEGAL COUNSEL

Burnet, Duckworth & Palmer LLP
Calgary, Alberta

REGISTRAR AND TRANSFER AGENT

CIBC Mellon Trust Company
Calgary, Alberta
For shareholder inquiries regarding security holdings, please contact the CIBC Mellon Trust Company at 1-800-387-0825

STOCK EXCHANGE LISTING

The Toronto Stock Exchange
Trading Symbol BNP

HEAD OFFICE

1100, 321 – 6th Avenue SW
Calgary, Alberta T2P 3H3
Telephone: (403) 213-4300
Facsimile: (403) 262-5184
Email: inv_rel@bonavistapete.com

FOR FURTHER INFORMATION CONTACT:

Keith A. MacPhail
President and CEO
(403) 213-4315

or

Ronald J. Poelzer
Executive Vice President and CFO
(403) 213-4308

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PETROLEUM LTD

1100, 321 6th Avenue SW, Calgary, Alberta T2P 3H3

Telephone: (403) 213-4300 • Facsimile: (403) 262-5184